

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order No. S-03-209-03-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) SUMMARY ORDER TO CEASE AND
) DESIST AND FOR AFFIRMATIVE
Pacific Coast Investment Company,) RELIEF, STATEMENT OF CHARGES,
) AND NOTICE OF INTENT TO ENTER
Respondent.) ORDER SUSPENDING OR REVOKING
) SECURITIES AND BROKER-DEALER
) REGISTRATIONS AND IMPOSING FINES
)

THE STATE OF WASHINGTON TO: Pacific Coast Investment Company

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that the Respondent, Pacific Coast Investment Company, has violated the Securities Act of Washington and that its violations justify the entry of an order of the Securities Administrator under RCW 21.20.280 and RCW 21.20.110 revoking or suspending Respondent's securities and broker-dealer registrations and requiring Respondent to pay a \$50,000 fine. The Securities Administrator has reason to believe that the violations justify the entry of an order under RCW 21.20.390 and finds that delay in ordering the Respondent to cease and desist from such violations would be hazardous to the investors and to the public and that a summary order to cease and desist and for affirmative relief should be entered immediately.

The Securities Administrator finds as follows:

1 **TENTATIVE FINDINGS OF FACT**

2 **RESPONDENT**

3 1. Pacific Coast Investment Company ("PCIC") is a Washington corporation with a
4 principal place of business at 700 Fifth Avenue, Suite 6010, Seattle, WA 98104.

5 2. PCIC is a "broker-dealer" under RCW 21.20.005(3), with registration # 10003976.

6 3. PCIC is a "mortgage broker-dealer" under WAC 460-33A-015, with permit #
7 70011404 authorizing it to effect transactions in "mortgage paper securities."
8

9 **BACKGROUND**

10 4. PCIC originates or acquires loans secured by real property and resells to investors
11 fractionalized "participation" interests in those loans. PCIC registers these participation
12 interests with the Securities Division as "mortgage paper securities" under RCW 21.20.210 and
13 WAC 460-33A. Pursuant to WAC 460-33A-020, PCIC has on file with the Securities Division
14 a registration statement accompanied by a general offering circular, a sample specific offering
15 circular, and certain other documents, but it does not file any specific offerings with the
16 Securities Division.

17 5. Generally, WAC 460-33A-055 requires a mortgage broker-dealer to hold investor
18 funds in a trust account with a qualifying financial institution, a registered escrow agent, or
19 another independent escrow agent acceptable to the director.
20

21 6. In a letter dated May 22, 1987, the Securities Division granted PCIC's request for a
22 waiver of WAC 460-33A-005, subject to the Securities Division's later review, that allows
23 PCIC to hold investor funds in its own trust account. The waiver was granted because PCIC
24 represented that it was subject to HUD auditing procedures and that its escrow department
25

1 supervisor had a limited practice permit issued by the Washington Supreme Court. Pursuant to
2 the waiver, PCIC uses its own trust account to hold investors' funds.

3 7. The Securities Division conducted on-site examinations of PCIC in December 2000
4 and January 2003. Both examinations revealed that PCIC made multiple disbursements from its
5 trust account prior to recording investors' interests in the underlying real property. The January
6 2003 examination also detected that PCIC held numerous investors' funds in trust for more than
7 60 days. Following both examinations, the Securities Division gave PCIC notice of the
8 deficiencies. PCIC responded with certain proposed new practices to avoid future problems.
9

10 8. Following a customer complaint, the Securities Division conducted an on-site
11 examination for cause in November 2003, again discovering that PCIC disbursed funds from
12 trust prior to recording investor interests and held funds in trust for more than 60 days.

13 NATURE OF THE OFFERINGS

14 9. In its General Offering Circular dated January 24, 2003, PCIC stated that it will
15 deposit investor funds in its escrow trust account, only removing them when, among other
16 conditions, the assignment of the participation interests has been recorded in the appropriate
17 county records. The General Offering Circular also stated that investor funds will not be held in
18 the PCIC trust account for more than 60 days and will be returned to investors on the 61st day
19 from deposit. PCIC filed the General Offering Circular with the Securities Division.
20

21 10. On or around February 12, 2003, PCIC offered, through a specific offering circular,
22 participation interests in a \$2,070,000 loan to Evanston Properties, Inc. (loan number 203001).
23 A mortgage on a shopping center and mobile home park in Charleston County, South Carolina,
24 secured the loan. At least 98 investors acquired participations. The approximately three-year,
25 12-percent interest per annum loan calls for monthly payments to PCIC of \$20,700. PCIC gave

1 this specific offering circular, along with the general offering circular, to investors. PCIC was
2 not required to file and did not file this specific offering circular with the Securities Division.

3 11. On or around March 7, 2003, PCIC offered, through a specific offering circular,
4 participation interests in a \$3,200,000 loan to Evanston Properties, Inc. (loan number 202090).
5 A mortgage on commercial buildings in Berkeley and Dorchester Counties in South Carolina
6 secured the loan. At least 149 investors acquired participations. The approximately three-year,
7 12-percent interest per annum loan calls for monthly payments to PCIC of \$32,000. PCIC gave
8 this specific offering circular, along with the general offering circular, to investors. PCIC was
9 not required to file and did not file this specific offering circular with the Securities Division.
10

11 NATURE OF PCIC'S CONDUCT

12 12. For loan number 203001, PCIC held 40 investors' funds in its escrow trust account
13 for longer than 60 days. For loan number 202090, PCIC held 9 investors' funds in its escrow
14 account for longer than 60 days. These funds were not disbursed or returned to the investors on
15 the 61st day from deposit into the escrow account.

16 13. PCIC disbursed from its escrow account the funds of 75 investors in loan 203001
17 before recording assignments of mortgage in Charleston County, South Carolina, reflecting the
18 investors' participation interests. PCIC also disbursed the funds of 90 investors in loan 202090
19 prior to recording their assignments of mortgage in Berkeley and Dorchester Counties, South
20 Carolina. As a result, for some period of time these investors neither had funds in escrow nor a
21 perfected security interest in the underlying real property.
22

23 EMERGENCY AND PUBLIC INTEREST

24 14. The Securities Administrator finds that the offering of mortgage paper security
25 participation interests and the consequent mismanagement of investor trust funds, as described

1 in Tentative Findings of Fact 4 through 13, constitutes a pattern or practice that presents a threat
2 to the investing public and it is in the public interest to enter a summary order against PCIC.
3

4 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:
5

6 **CONCLUSIONS OF LAW**

7 1. The offer or sale of participation interests described above constitutes the offer or
8 sale of a security as defined in RCW 21.20.005(10) and (12).

9 2. As set forth in Tentative Findings of Fact 7 through 13, PCIC has violated RCW
10 21.20.010 by making untrue statements of material fact, or omitting to state material facts
11 necessary in order to make the statements made not misleading, including but not limited to
12 statements about how long PCIC would hold investor funds and the conditions upon which
13 PCIC would disburse them.

14 3. As set forth in Tentative Finding of Fact 12, PCIC has violated WAC 460-33A-055
15 by maintaining investors' funds in its escrow account for longer than 60 days without disbursing
16 the funds or returning them to the investor on the 61st day from deposit in the account.

17 4. As set forth in Tentative Finding of Fact 13, PCIC has violated WAC 460-33A-060
18 and WAC 460-33A-070 by failing to record assignments of mortgage in the appropriate
19 counties before disbursing any escrowed investor funds.
20

21 **SUMMARY ORDER**

22 Based on the foregoing, NOW, THEREFORE, IT IS HEREBY SUMMARILY
23 ORDERED that the prior waiver that allowed PCIC to maintain its own escrow trust account is
24 revoked effective five business days after PCIC receives this order.
25

1 It is further SUMMARILY ORDERED that PCIC, its agents, and its employees each
2 cease and desist from violation of WAC 460-33A-055.

3 It is further SUMMARILY ORDERED that PCIC use an independent escrow agent for
4 handling investor funds, effective five days after PCIC receives this order.
5

6
7 **NOTICE OF INTENT TO SUSPEND OR REVOKE SECURITIES REGISTRATION**

8 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities
9 Administrator pursuant to RCW 21.20.280 intends to suspend or revoke Pacific Coast
10 Investment Company's permit to sell mortgage paper securities, # 70011404.
11

12 **NOTICE OF INTENT TO SUSPEND OR REVOKE BROKER-DEALER**
13 **REGISTRATION**

14 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities
15 Administrator pursuant to RCW 21.20.110 intends to suspend or revoke Pacific Coast
16 Investment Company's broker-dealer registration, # 10003976.
17

18 **NOTICE OF INTENT TO IMPOSE FINES**

19 Based upon the Tentative Findings of Fact and Conclusions of Law, the Securities
20 Administrator pursuant to RCW 21.20.110 intends to order that Pacific Coast Investment
21 Company shall be liable for and pay a fine of \$50,000.
22

23
24 **AUTHORITY AND PROCEDURE**
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1 This Summary Order Seeking Affirmative Relief and to Cease and Desist, Statement of
2 Charges, and Notice of Intent to Enter Order Suspending or Revoking Securities and Broker-
3 Dealer Registrations and Imposing Fines is entered pursuant to the provisions of Securities Act
4 and is subject to the provisions of chapter 34.05 RCW. The Respondent, Pacific Coast
5 Investment Company, may make a written request for a hearing as set forth in the NOTICE OF
6 OPPORTUNITY TO DEFEND AND OPPORTUNITY FOR HEARING accompanying this
7 order.
8

9 If the Respondent does not request a hearing, the Securities Administrator intends to
10 adopt the above Tentative Findings of Fact and Conclusions of Law as final and enter an order
11 revoking Respondent's securities registration, revoking Respondent's broker-dealer registration,
12 and requiring Respondent to pay a \$50,000 fine.
13

14 Dated this 28th day of January, 2004
15

16 Order Entered by:

17 
18 DEBORAH R. BORTNER

19 Securities Administrator
20

21 Approved by:

22 

23 Michael E. Stevenson
24 Chief of Enforcement
25

Presented by:



Andrew Ledbetter
Financial Legal Examiner